FORM READING
and
RULES FOR DETERMINING TREND OF STOCKS

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REQUIREMENTS FOR SUCCESS IN SPECULATION OR INVESTMENT

KNOWLEDGE

One of the vital and most important factors for making a success in speculation or anything else is KNOWLEDGE. The well-posted man or the man who knows his business is the man who succeeds. Therefore, put it down as a rule that hard work in acquiring knowledge will surely bring success in speculation or business.

PATIENCE

After you have acquired knowledge you will need to learn PATIENCE, if you have not already learned the value of patience. You must learn to wait for a definite indication of a change in trend before buying or selling. You must not guess or gamble on hope or fear. You must have ability to act and to act quickly at the right time, acting after you have acquired knowledge and know it is the time to act.

COURAGE

You must have the COURAGE to act. Courage and boldness will come after you have acquired knowledge because you will have confidence in proven rules and confidence in your ability. Therefore, the acquiring of knowledge will give you the courage for action at the time when the real opportunity comes.

STUDY

A man who will not work hard and STUDY and pay in advance for success will never get it. If you will put in the time, study, and go over the records of the Dow-Jones Industrial averages from 1892 to date, you will be convinced that the rules work and that you can make money by following the main trend of the market.

FORM READING

Eighty-five per cent of what any of us learn is from what we see. It has been well said, "One picture is worth a thousand words." That is why FORM READING or the reading of various formations at different periods of time is so valuable. The future is but a repetition of the past. The same formation at tops or bottoms or intermediate points at different times indicates the trend of the market. Therefore, when you see the same picture or formation in the market the second and third time, you know what it means and can determine the trend.

You do not have to accept my word that the rules I give you will work in the future as they have in the past but you owe it to yourself to prove by past records that these rules work; then you will have the faith to follow them and make money.

CAPITAL REQUIRED

The first point to consider in operating any method on the stock market is the amount of capital required, with which you can trade and never lose your capital and over a period of 5, 10 or 15 years be able to make profits, because a method that will make profits and never lose your capital is the kind of a method that every man should follow to make a success.

As a general rule, I have always considered it advisable to use at least $3,000 capital for every 100 shares of stock traded in and to limit stop loss orders to not more than 3 points on every 100 shares. In this way you will be able to make 10 trades on your capital and the market would have to beat you 10 consecutive times to wipe out your capital, which it will not do. Whatever amount of capital you use to trade with, follow this rule: Divide your capital into 10 equal parts and never risk more than 10% of your capital on any one trade. Should you lose for 3 consecutive times, then reduce your trading unit and only risk 10% of your remaining capital. If you follow this rule, your success is sure.

On stocks selling around $15 to $30 per share, you can start with a capital of $1,500. The first trade should be made at a time when you can place a stop loss order not more than 2 points away and you should try to start when your risk will only be 1 point. In other words, with a capital of $1,500 you must figure that you would be able to make at least 7 to 10 trades and the market would have to beat you 7 to 10 consecutive times to wipe out your trading capital. With this Method it is impossible for that to happen, provided you follow the rules and trade on definite indications.

This Method will make the most money trading in high-priced stocks, and for trading in stocks selling above $100 per share, you should use a capital of $4,000 and adhere strictly to all the rules.

If you want to start trading in small units of stock, use a capital of $300 for each 10 shares and never risk more than 3 points on the initial trade. Try to make the first trade, if possible, where your stop loss order will not be more than 1 or 2 points. Never risk more than one-tenth of your capital on any one trade.

KIND OF CHARTS TO USE

A busy man or specialist should keep a weekly high and low chart on the Dow-Jones 30 Industrial averages and the 15 Public Utility averages and should keep weekly high and low charts on 5 to 10 of the leading active stocks in the different groups. He could also keep up monthly high and low charts on a few stocks selling below 20 or below 10 and watch these different low-priced stocks when they indicate a change in trend. By crossing old tops and showing activity, it would indicate a good time to buy them.

MAJOR AND MINOR TRENDS

You will always make the most money by following the main trend of the market, altho to say that you must never trade against the trend means that you will miss a lot of intermediate moves which will make big profits, but your rule must be: When you are trading against the trend, wait until one of your rules gives you a definite indication of a buying or selling point at bottom or top, where you can place close stop loss orders.

There are always two trends--a major trend and a minor trend. The minor trend is a reversal of the main trend, which lasts for a short period of time. When the main trend is down, it is much safer to sell stocks short on rallies at a point where the rules indicate that they are top than it is to buy on a reaction. In a Bull Campaign or advancing market, it is much safer to wait for minor reactions and buy when the rules indicate that it is time to buy than it is to sell short on rallies. You will always make the most money by waiting for a definite indication of the trend before buying and selling.

TREND LINE INDICATIONS

GREEN TREND LINE

This Green Trend Line indicates uptrend, either the minor or the main trend.

We use the GREEN TREND LINE for an advancing market or when a stock or the averages are making higher tops and higher bottoms each week. The first week that a higher bottom and a higher top is made than a previous week, the Green Trend Line is moved up to the top of that week. Then, as long as the stock or the averages make higher bottoms and higher tops, the Green Trend Line continues to be moved up to the high point of each week.

RED TREND LINE

The first week that a stock or the averages make a lower bottom than the previous week, the Trend Line changes to red and is moved down to the low of that week and continues to be moved down as long as the stock or the averages make lower bottoms. This Red Trend Line means that the minor or the main trend has turned down and that you should follow the RED TREND LINE until it reverses. The first week a higher bottom and a higher top are made,. the Trend Line changes again to green.

BUY WHEN THE RED TREND LINE CHANGES TO GREEN

SELL WHEN THE GREEN TREND LINE CHANGES TO RED

For study purposes we have used the Dow-Jones 20 Railroad Stock averages ... weekly high and low ... from 1896 to July, 1914, because the rails were leaders during that period and moved faster, making a wider range, than the Industrial Stocks, therefore, were better trend indicators and more profitable to trade in.

You should follow the Trend Lines and apply the rules given here for buying points:

THREE BUYING POINTS

1 - BUY AT OLD BOTTOMS OR OLD TOPS

When a stock declines to an old bottom or to an old top, it is always a buying point with a stop loss order. In fact, you should never buy unless you can figure where to place a stop loss order 1 to 3 points away and in high-priced stocks never more than 5 points away.

Remember, it is safe to buy when a stock reacts to old tops the first, second or third time, but when it declines to the same level the fourth time, it is dangerous to buy as it nearly always goes lower.

Buy when a stock declines 1 to 3 points under old tops or old bottoms. However, a stock is always strongest if it holds just around the old tops or old bottoms and does not break 1 to 3 points under. Holding slightly higher than these old levels is a still stronger indication.

Stocks selling above $100 a share-- After they cross old tops they can react 5 points under the old tops but not more, and if the market is really strong, they should not go as much as 5 points under, except in very rare cases when the market is in a wide trading range and very active.

2 - SAFER BUYING POINT

Buy when a stock crosses former tops or crosses a series of tops of previous weeks, showing that the minor or the main trend has turned up as indicated by the Green Trend Line.

3 - SAFEST BUYING POINT

Buy on a secondary reaction after a stock has crossed previous weekly tops and the advance exceeds the greatest rally on the way down from the top.

Buy when the first rally from the extreme bottom exceeds in time the greatest rally in the preceding Bear Campaign.

Buy when the period of time exceeds the last rally before extreme lows were reached. If the last rally was 3 or 4 weeks, when the advance from the bottom is more than 3 or 4 weeks, consider the trend has turned up and stocks are a safer buy on a secondary reaction. Examples later will prove this rule.

THREE SELLING POINTS

When we refer to selling points we mean to either sell out long stocks or sell short.

1 - SELL AT OLD TOPS OR OLD BOTTOMS

An important point to sell out longs and go short is at old tops or when a stock rallies to old bottoms the first, second or third time. As a rule, it

is risky to sell the fourth time that a stock advances to the same level because it nearly always goes higher. When you sell short, place stop loss orders 1, 2, or 3 points above old tops or old bottoms.
When prices are at high levels above $100, the averages can go 5 points above old tops or 5 points above old bottoms without changing the main trend. But this seldom happens, as a study of previous tops and bottoms will prove. As a rule, when the market is weak and the main trend down, the rally stops right under old bottoms and should not go more than 2 points above them. If it goes 3 points above, it is an indication that the market is strong and likely to go higher. If it declines under these old levels, this indicates that the market is very weak.

2 - SAFER SELLING POINT

Sell when a stock breaks the low of a previous week or a series of bottoms or previous weeks as indicated by the Trend Line.

3 - SAFEST SELLING POINT

Sell on a secondary rally after the stock has broken the previous bottoms of several weeks or has broken the bottom of the last reaction, turning trend down. This secondary rally nearly always comes after the first sharp decline in the first section of a Bear Campaign.

Sell after the first decline exceeds the greatest reaction in the preceding Bull Campaign or the last reaction before final top.

Sell when the period of time of the first decline exceeds the last reaction before final top of the Bull Campaign. Example: If a stock has advanced for several months or for one year or more and the greatest reaction has been four weeks.... which is an average reaction in a Bull Market ... then after top is reached and the first decline runs more than 4 weeks, it is an indication of a change in the minor trend or the main trend. The stock will be a safer short sale on any rally because you will be trading with the trend after it has been definitely defined.

FORMATIONS AT BOTTOMS AND TOPS

By studying stock formations of the past you will be able to determine what is going to happen when similar formations occur in the future, just as you know that there is going to be a rainstorm when you see a heavy dark cloud form.

After accumulation or distribution at bottom or top has been completed, there is a BREAKAWAY POINT. When you buy or sell stocks at this point, you make money very quickly.

Study the volume of sales, the space and price movements and the last and most important time period. Similar action of the market occurs around the same month years apart. When we come to the Lesson on "Volume" it will give you more rules and information.

Study the different types of bottom formations-- Sharp, double, triple, flat and ascending bottoms.

SINGLE "V" OR SHARP BOTTOM

This formation can be a sharp, fast decline followed by a fast advance, or even a slow decline followed by a quick rally from the bottom with no secondary reactions until it advances to higher levels.

Example: July 26, 1910, the Dow-Jones 20 Railroad averages had a sharp decline to 105¾; then rallied sharply to 114¾ ... a 9-point advance with no reactions ... and did not later go back to make a double bottom.

"U" BOTTOM OR FLAT BOTTOM

This "U" bottom is a formation where a stock remains for 3 to 10 weeks or more in a narrow trading range, making about the same top and bottom levels several times; then when it crosses the intermediate tops, it has formed a "U" or flat bottom and is at the breakaway point ... a safe place to buy.

Example: March 12 to April 30, 1898 ... The 20 Railroad averages held between 56 and 60, hitting the bottom level 4 times. This was a flat bottom and when they crossed 60, the averages indicated higher prices.

"W" BOTTOM OR DOUBLE BOTTOM

When a stock declines and makes bottom; then rallies for 2 to 3 weeks or more; declines and makes a bottom around the same level the second time; then advances and crosses the previous top, it has formed a "W" or double bottom. It is safe to buy when it crosses the top or middle of the "W" ... which is the BREAKAWAY POINT.

Example: December 23, 1899, low 72½ June 23, 1900, low 73.

"W V" BOTTOM OR TRIPLE BOTTOM

This is a third higher bottom after a double bottom or three bottoms near the same level. It is safe to buy when a stock has formed a "W" and a "V" on the side and crosses the second top of the "W".

Example: Dec. 23, 1899 - 1st bottom at 72½
Jun. 23, 1900 - 2nd bottom at 73
Sep. 29, 1900 - 3rd bottom at 73¾
This formed a "W V" bottom and after the averages advanced above 78.. the BREAKAWAY POINT ... a runaway advance followed, the market advancing 44 points in 28 weeks.

"W W" BOTTOM OR 4-BOTTOM FORMATION

This formation shows first, second, third and fourth bottoms. The safest point to buy is at the BREAKAWAY POINT or when a stock crosses the middle point of the second "W".

Example: Aug. 8, 1903, low 90¾ .... rallied to 98¾ on Aug. 22, 1903
Oct. 17, 1903, low 89-3/8 .... rallied to 99-5/8 on Jan. 23, 1904
Mch. 19, 1904, low 91¼ .... rallied to 97¾ on Apr. 16, 1904
May 21, 1904, low 93½

When the averages crossed 97¼, the middle of the second "W" they went on thru the top of 99-5/8, top of the first "W". This was the BREAKAWAY POINT and the market advanced 27 points without reacting to 99 again.

TOP FORMATIONS

You should study the various types of tops-- Sharp, flat, double, triple, and descending tops.

SINGLE "A" OR SHARP TOP

After a prolonged advance or at the end of a Bull Campaign, the averages or individual stocks often make a single sharp top ... advancing 17 to 26 weeks or more with only small reactions lasting sometimes 10 days to two weeks ... then follows a sharp, quick decline. <u>It is safe to sell on a subsequent or secondary rally and safer to sell when it breaks the last leg of the "A" or when it breaks the bottom of the first sharp decline.</u>

Example: The 20 Railroad averages advanced from 117½ to 129¼ in 16 weeks from May 24 to September 13, 1902; then had a sharp decline to October 18, and only rallied to 123¼. When they broke 118¾, it was an indication of weakness and the Bear Market continued.

"⊓" TOP OR FLAT TOP

When the market makes several tops near the same level and the bottoms on reactions are near the same level ... holding in a narrow trading range ... it forms a "⊓" top or flat top. It is safe to sell short when it breaks under the series of weekly bottoms.

Example: May 13 to July 29, 1911, the Railroad averages held in a range of 2½ points for 8 weeks, forming a flat top, and the market was a safe short sale when the averages broke 121, under the low point of this narrow range.

"M" TOP OR DOUBLE TOP

When a stock or the averages reach top after a substantial advance; then react 3 to 7 weeks or more and rally again to around the same top, an "M" or double top is formed. Then, when it declines and breaks under the low of the last reaction or under the middle of the "M", it is safe to sell short.

Example: 1906, September 15 high 137¾; November 17 low 131½;
December 15 high 137½; then followed a quick
decline, breaking the low of 131½, and a Bear
Market followed.

"M A" TOP OR TRIPLE TOP

This formation occurs when a stock or the averages make 3 tops near the same level or the 2nd and 3rd tops are slightly lower. When these formations are made at tops after a long advance, they are signals for a major decline. The more time between tops, the stronger the indications for a big decline. It is safe to sell when a stock breaks the last bottom or breaks the end of the "M" and safer when it breaks the bottom of the "A" ... which is the BREAKAWAY POINT.

Example: 1st top - Jan. 19, 1906, high 138-3/8 ... end of Bull Market;
May 5, 1906, sharp decline to 120¼;
2nd top - Sep. 22, 1906, high 137¾, slightly lower than Jan. 1906 top;
Nov. 17, 1906, low of 6-point reaction;
3rd top - Dec. 15, 1906, high 137½, near same level ... a signal for a big decline. Panic followed in 1907 and the averages declined 57 points in 11 months.

"M M" OR 4-TOP FORMATION

This formation occurs when a stock or the averages make 4 tops at the same level or slightly lower. It is safest to sell short when a stock breaks the second point of the second "M" or the low of the last reaction.

Example: 1st top - July 22, 1911, high 124;
2nd top - Aug. 17, 1912, high 124;
Sep. 14, 1912, reacted to 120½;
3rd top - Oct. 5, 1912, high 124-3/8;
Nov. 2, 1912, reacted to 119-5/8;
4th top - Nov. 9, 1912, last rally to 122¼;
When the averages broke under 119-5/8, low of the last reaction, this was the BREAKAWAY POINT and a big decline followed.

SECTIONS OF MARKET CAMPAIGNS

A Bull or Bear Campaign in stocks or the averages runs out in 3 to 4 sections--

BULL MARKET

1st Section - Advance after final bottom; then a secondary reaction.

2nd Section - Advance to higher levels, above the highs of previous weeks and of the first advance; then a reaction.

3rd Section - Advance to new high for the move. In many cases this means the end of the campaign, but you must watch for a definite indication before deciding that the 3rd run up means a change in the main trend.

4th Section - Often four sections are run out and this 4th move or run-up is the most important to watch for the end of a Bull Campaign and a change in trend.

Minor Bull Campaigns of short duration, running one year or less, often run out in two sections, especially if the first section is from a sharp bottom. Therefore, always watch the action of the market after the second advance to see if it is forming a top and gives indications of a change in trend.

BEAR MARKET

A Bear Campaign runs opposite to a Bull Campaign--

1st Section - There is a sharp, severe decline which changes the main trend; then a secondary rally on which stocks are safer short sales. That marks the end of the 1st Section.

2nd Section - Then there is a second decline to lower prices, followed by a moderate rally.

3rd Section - A third decline or move to still lower prices, which may be the end of the campaign.

4th Section - There is often a 4th move, when you must watch closely for bottom. In determining whether it is final bottom, you use all of the other rules ... watching old tops and old bottoms for definite indication that the main trend is ready to change.

Minor Bear Campaigns of short duration, running one year or less, often run out in two sections, especially if the 1st Section is from a sharp top. Therefore, always watch the action of the market after the 2nd decline to see if it is forming a bottom and gives indication of a change in trend.

In extreme cases, like 1929 and the Bear Campaign which followed from 1929 to 1932, there are as many as 7 sections up or down, but this is abnormal and unusual and only occurs many years apart.

Go back over all of the campaigns we have worked out and you will see how these sections or moves run out.

HOW TO DETERMINE CHANGE IN THE MAIN TREND

SPACE MOVEMENT

RULE FOR DETERMINING CHANGE IN TREND ACCORDING TO SPACE MOVEMENTS--

When a decline in points exceeds the greatest decline of a previous reaction by one or more points, it is an indication of a change in trend.

When the market has run out 3 or more sections in a Bull Campaign, go back over the record and find out what the greatest reaction has been in any section, whether 10, 15, 20, 30 points or more. Suppose the averages have been advancing for a long time and the greatest reaction in the Bull Market has been 10 points and the market has reached the 3rd or 4th Section of the campaign. Then the first time the averages or the price of a stock breaks back more than 10 points, or more than the greatest reaction, it is an indication that the main trend has changed or will change soon. This does not mean that a rally cannot take place after this definite signal of reversal has been given, as usually after the first signal of a change in trend is given, there is a secondary rally in a Bull Market and time has to be allowed at top for distribution to take place. Therefore, just because you get a definite indication that the main trend has changed, do not jump to the conclusion that you can sell short right at that time and that there will be no rally. Always sell on rallies, if possible, altho there are times that you can sell at new low levels or when bottoms are broken. Judge this by applying all of your rules.

TIME PERIOD -- Another way to tell when the main trend is changing.

RULE-- When a campaign has only 3 or 4 sections and the TIME period on a reac tion exceeds the greatest time of a previous reaction, consider that the mai trend has changed.

Go back over the record and find the greatest time period from any minor top o the duration of a reaction in previous sections of the Bull Market. If you fir that the greatest reaction has been about 4 weeks, then the first time the marke declines consecutively for 5 weeks or more, it is an indication that the mai trend has changed and that stocks will be short sales on a secondary rally.

Apply the same rules in a Bear Market. When the SPACE movement or number o points that a stock or the averages have rallied during a Bear Campaign is exceed ed, the trend is changing. When the TIME period of the greatest reverse movemen is exceeded, then the main trend is changing and a Bull Campaign is starting.

A reversal in SPACE movement after the second run or 2nd Section in a Bull or Bear Market, would not mean as important a change in trend as if it came after th 3rd or 4th Section had run out, either up or down.

Examples of all these rules will be referred to in the working out of each Bul and Bear Campaign from 1892 to 1939 so that you will know just how to apply th rules in future market movements.

MANY WEEKS IN NARROW RANGE

When a stock or the averages hold for 2 to 6 weeks or 10 to 13 weeks in a nar row range, then cross tops or break bottoms of previous weeks, the trend ha changed and you should go with it. The longer the period of time in a narro range, the greater the advance or the decline when they break out of the range either up or down.

Example: 1897, January 16 to March 20, the Railroad averages held in 2-poin range; then broke the low of 52 and went lower. 1897, April 10 to May 22, held i a 2-point range for 6 weeks; then crossed the top at 51 and the Bull Marke started.

ACCUMULATION OR DISTRIBUTION ON SIDE

After a market has advanced to the 3rd or 4th Section, then has a sharp declin and rallies, it will often remain for a long period of time in a range while DIS- TRIBUTION is taking place ON THE SIDE. The top of the range may be several point below the extreme high. In FORM READING it is very important to note the rang from high to low in this zone of distribution. The stock is a short sale at th top of this range of distribution on the side and a safer sale when it breaks th low point of this range ... which is the BREAKAWAY POINT.

At the end of a Bear Campaign, after the first sharp advance there is a second- ary reaction; then a long period of ACCUMULATION ON THE SIDE, with several move up to the top of the range and back to the bottom of the range of accumulation The market is a buy at the bottom of this range and a safer buy when the tops o this range are crossed as that is the BREAKAWAY POINT and a signal for a fast ad- vance.

Examples of these sideways accumulation and sideways distribution will be show in the different campaigns worked out.

LAST STAGE OF BULL OR BEAR MARKET

In fast, advancing markets in the last stage of the campaign reactions get smaller as stocks work to higher levels, until the final section or run has ended. Then comes a sharp, quick reaction and a reversal in trend.

In the last stage of a Bear Market, after all old bottoms and resistance levels have been broken, rallies get less or smaller as prices work lower. Therefore, people who buy have no chance to sell on rallies until the final bottom has been reached and the first rally takes place.

This is why it never pays to buck the trend in the last stage of a Bull Market or the last stage of a Bear Market.

RANGE OF BOTTOMS

Never consider that a major or a minor trend has reversed or changed until the bottoms of previous weeks have been broken or the tops of previous weeks have been crossed. The number of points that a stock or the averages should decline below a bottom to indicate a change in trend to lower levels, varies according to the price at which the averages or the stock is selling. We consider a range within 1 to 3 points a double or triple bottom or a double or triple top. In a strong market a stock will break only 1 point under a bottom and then rally and, in extreme cases, not more than 2 points. As a rule when bottoms are broken by 3 full points it is an indication for lower prices before any rally of importance.

RANGE OF TOPS

The same at the top. The range for double tops is about 3 points. These tops can be in a range of 1 to 3 points and still be considered double and triple tops. Advancing 1 to 2 points above an old top does not always indicate that the main trend has changed and that stocks are going up immediately but advancing 3 points above old tops is nearly always a definite indication that higher prices will follow before much reaction. At the end of Bull or Bear Markets some false moves are often made and quick reversals follow.

HOW FAR SHOULD STOCKS DECLINE BELOW OLD TOPS AFTER THEY ADVANCE ABOVE THEM?

In order to still show uptrend, after a stock or the averages have advanced above old tops, then reacted, when in strong position they will stop right around the old tops or sometimes go 1 to 2 points below the old tops but seldom more than 3. Regardless of how high a stock is selling, a decline of more than 5 points below the old top would indicate that the trend had reversed and at that immediate time the stock would not go higher but would go lower for awhile. It can decline 5 points under old tops and still be in a Bull Market, all depending on what section the market is in. A signal in the last section is most important.

HOW FAR STOCKS CAN GO ABOVE OLD BOTTOMS IN BEAR MARKETS

Reverse this rule in a Bear Market. When stocks advance to old bottoms, they are short sales because bottoms become tops and tops become bottoms. They should not go more than 1 to 2 points above the old bottoms and on an average should not go more than 3 points. Therefore, even when stocks are at high levels if they advance more than 5 points above an old bottom, it is an indication that they are going higher and are not going to work lower immediately with the main trend.

SEVERAL FAST MOVES UP OR DOWN OVER A RANGE OF 5 TO 7 OR 10 TO 12 POINTS

Whether the market is very active or in a slow trading range, all indications are more accurate and more valuable when the market is quite active.

After a stock or the averages have been advancing for some time and have run out 3 or 4 section, if there are several moves of 10 to 12 points up or down in a range, making several bottoms and several tops in this range, it indicates either accumulation or distribution. When the bottoms in a range of this kind are broken it is an indication of lower prices and when the tops in a range of this kind are crossed, it is an indication of higher prices. Note the range on sideways accumulation and the range on sideways distribution.

An advancing market may have several reactions of 10 to 12 points; then have a reaction of 20 to 24 points;then after an advance if it declines from any top more than 20 points, it will usually run 30 to 40 points. Go over the stocks or averages when they have been selling at very high levels and prove to yourself the value of this rule.

WHEN THE MARKET IS IN STRONGEST POSITION OR IN WEAKEST POSITION

A stock or the averages are in the strongest position after there has been a prolonged decline and the market starts making higher bottoms, especially after a sharp, fast decline, when rallies have been small. After the 2nd or 3rd higher bottom has been made and then the top of a previous rally has been crossed, the stock is in the strongest position. Rising bottoms always indicate strength and an advance usually starts from the 3rd or 4th higher bottom, that is, the big advance which runs for a long time with only small reactions. You make money quickest when you get in on a move of this kind.

Reverse this rule in a Bear Market. A market is weakest when it is making lower tops. The 3rd or 4th lower top is the safest place to sell. After the 3rd or 4th lower top, when it breaks the last low or previous bottom, it is in the weakest position and indicates that the main trend is down and declines will be faster.

HOW TO DETERMINE CHANGE IN MINOR TREND

MINOR ADVANCE

When a market is advancing and makes a top around the same level for 2 or more weeks, especially when the range is very narrow near top levels, then prices break under the bottom of 2 weeks or more, the minor trend has turned down and you would follow it until there is another definite indication of a change in trend.

MINOR REACTION

After the averages or a stock has been declining for several weeks or several months and prices make bottom 2 weeks or more around the same level and hold in a narrow trading range for 2 weeks or more and then cross the tops of 2 or 3 weeks on the upside, the minor trend has changed, at least temporarily, and you should go with it.

DULL MARKET

A dull market, in a narrow trading range at any point, indicates that it is getting ready for some kind of a change and you should follow it whichever way it breaks out, up or down, after these narrow, dull periods.

DURATION OF MINOR MOVES

RULE FOR TIME OF MINOR REACTION IN BULL MARKETS--

In an advancing market or Bull Campaign when indications are given for a minor reaction, prices will react 3 to 4 weeks but as a rule in the 4th week they will rally and close higher. In some cases there will only be a sharp, quick reaction of 2 weeks and then the main trend will be resumed, but after a decline of 3 to 4 weeks should the market have a minor rally; then break back under the bottom of the 3rd or 4th week, it will be an indication of a greater change in the trend and probably a change in the main trend.

In extreme cases, after a secondary rally in a Bull Market, prices will decline as much as 6 to 7 weeks, seldom more, before the main trend is resumed.

RULE FOR TIME OF MINOR RALLIES IN BEAR MARKETS--

These rules are reversed in a Bear Market. Rallies in a Bear Market last 2 to 4 weeks. Should a rally hold into the 5th week, it is likely to run into the 6th or 7th week; then you can watch for an important change in trend.

After a rally of 3 to 4 weeks and a secondary reaction in a Bear Market, should the market advance and cross the level made at the end of the 3 or 4 weeks' rally, then the trend is changing, at least temporarily, and higher prices ... even in a Bear Market ... are indicated.

HOW TO DETERMINE FIRST CHANGE IN TREND
BY OPENING AND CLOSING PRICES

The Weekly high and low Chart with the opening and closing prices on it is one of the best charts to use for determining trend of stocks or the averages. That is why we have used the Weekly Chart on the Dow-Jones 30 Industrial averages and given all the indications according to it.

The closing price at the end of the week or at the end of any day is most important because regardless of how high or how low stocks have been during the week or during the day, the closing price shows exactly what they have lost or gained at the end of the period.

After a stock or the averages have been advancing for a considerable period of time and have reached an old top or a section of the campaign which indicates that a change in trend could take place, it is very important in very active markets to watch the opening price on Monday morning. Should the averages or a stock not sell more than one point above the opening price on Monday morning and then decline and close at or near the low levels of the week on Saturday, it is the first indication of a change in trend on the Weekly Chart. But don't fail to use your other rules and wait for the proper declines in TIME or SPACE or until previous weekly bottoms have been broken before deciding that there is a definite change in trend.

Reverse this rule at the bottom of a decline or after there has been a sharp, fast decline in a very active market. Watch the opening price on Monday morning. Should a stock decline rapidly to around the middle or latter part of the week, then after making bottom, reverse and rally quickly and on Saturday close at or near the opening on Monday morning or above this opening, it is an especially strong indication that the trend is reversing and that prices are going higher temporarily. But use all of your other rules ... the crossing of previous weekly tops ... the reversal of the SPACE movement in points ... also reversal in TIME .. before deciding that a definite change in trend is indicated.

It is also very important at the end of the week if prices close under old bottoms or under bottoms of previous weeks or close above old tops or above tops of previous weeks as it is an indication of weakness or strength.

WHEN STOCKS ADVANCE INTO NEW HIGH GROUND OR DECLINE INTO NEW LOW GROUND

When stocks advance to higher levels than they have been before in their previous history or decline to lower levels than they have ever sold before in their history, they are in new high or new low ground and you must have a rule to follow when stocks reach new high or new low record prices.

First, apply all of your other rules and do not buy or sell until there is a definite indication of a change in the main trend.

When a stock or the averages advance to a new high level that they have never sold at before in their history, it is an indication of an advance of 7, 10, 15, 20 to 24 points or more, especially if it is in the 1st or 2nd Section of the Bull Campaign. Should new highs be made in the 3rd or 4th Section, then the advance into new high ground may not be very many points before final high is reached and the trend changes.

You should watch the action of the market when it has advanced 7 points into new high territory, 10 points, again around 15 points, and on an extreme advance watch around 20 to 24 points, where there is likely to be resistance and top made. These are average moves and it depends upon the activity and the price of a stock whether it will stop on any of these points. By following the trend indications and rules you will be able to determine when the first move into new high territory has run out and the trend has changed.

Reverse the above rules in a Bear Campaign.

When the averages or stocks selling between 50 and 125 advance into new high ground, these average movements of 7, 10, 15, 20 and 24 points, work out quite accurately. After stocks advance above 125, they move faster and go higher than they do below 125. Above 200, the movement increases and the range is much wider. The same when stocks or the averages get above 300 ... they have a still greater range and faster moves, all of which depends upon how long the campaign has been running and how many moves or sections the campaign has run out and how high the stocks are from the last bottom or how far down from the last top.

WHEN TO USE DAILY HIGH AND LOW CHART

When markets are very active and fluctuating over a wide range, especially in the last stages of a Bull Market or the last fast decline in a Bear Market, you should keep up a Daily high and low Chart on the averages or individual stocks and put on the Trend Lines, applying the same rules as used for the Weekly Chart, because the Daily Chart will give you the first change in the minor trend, which may later be confirmed by the Weekly Chart into a change of the main trend. Full instructions will follow under "Resistance Levels."

Again I remind you ... Don't try to get ahead of the market. Don't guess if it is making a change in trend and be wrong. Wait until it shows a definite change in trend. You will be right when you form your judgment after definite indication is given according these rules.

July 6, 1939